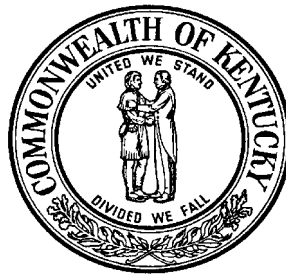


**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2001**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
[www.kyauditor.net](http://www.kyauditor.net)**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Lon Lafferty, Martin County Judge/Executive

Honorable Darriel Young, Martin County Sheriff

Members of the Martin County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Martin County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Martin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**AUDIT EXAMINATION OF THE  
MARTIN COUNTY SHERIFF**

**Calendar Year 2001**

**BERGER & ROSS, PLLC**  
Certified Public Accountants & Fraud Examiners  
800 Envoy Circle  
Louisville, KY 40299-1837  
(502) 493-9600  
Fax: (502) 499-9132

400 Democrat Drive  
Suite 2107  
Frankfort, KY 40601  
(502) 695-7353



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MARTIN COUNTY SHERIFF**

**Calendar Year 2001**

Berger & Ross, PLLC has completed the Martin County Sheriff's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presently fairly in all material respects.

**Financial Condition:**

Net receipts of the Sheriff's calendar year 2001 Fee Account decreased by \$24,427 from the prior calendar year, resulting in a deficit of \$26,060 which is due from the Martin County Fiscal Court in order for the Sheriff to receive his statutory maximum. Revenues decreased by \$21,739 from the prior year and disbursements increased by \$2,688.

**Report Comments:**

- The Sheriff Should Present An Annual Financial Settlement To The Fiscal Court, And Publish The Annual Financial Statement
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement
- The Sheriff Should Not Exceed His Budget
- The Fiscal Court Should Set The Sheriff's Deputies Salary Limitations
- The Sheriff Should Pay His Expenses In A Timely Manner

**Deposits:**

The Sheriff's deposits were not properly insured and collateralized by bank securities or bonds. There was no written security agreement.



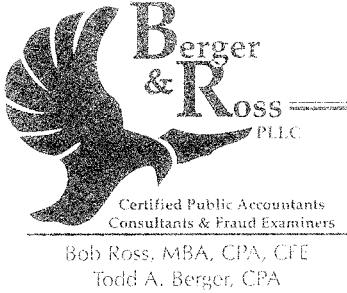


## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES.....	3
NOTES TO THE FINANCIAL STATEMENT.....	5
COMMENTS AND RECOMMENDATIONS .....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	15





(502) 499-9088  
800 Envoy Circle  
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132  
Email: [irsrescue@msn.com](mailto:irsrescue@msn.com)  
Internet: [www.irsrescue.com](http://www.irsrescue.com)

Member:  
American Institute of CPAs  
Association of Certified Fraud Examiners  
Association of Government Accountants  
Certified Public Accountants of Kentucky  
Kentucky Association of Accountants  
Kentucky Association of Tax Professionals  
Government Finance Officers Association

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Lon Lafferty, Martin County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

#### Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Martin County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Martin County Sheriff's office prepared the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts, disbursements and excess fees of the Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Lon Lafferty, Martin County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated October 1, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Present An Annual Financial Settlement To The Fiscal Court, And Publish The Annual Financial Statement
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement
- The Sheriff Should Not Exceed His Budget
- The Fiscal Court Should Set The Sheriff's Deputies Salary Limitations
- The Sheriff Should Pay His Expenses In A Timely Manner

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", written in a cursive, flowing style.

Berger & Ross, PLLC

Audit fieldwork completed -  
October 1, 2002

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Payments:

Finance and Administration Cabinet Payments	\$ 7,286	
Cabinet for Human Resources	1,689	
KLEFPF Grant	<u>8,261</u>	\$ 17,236

Circuit Court Clerk:

Sheriff Security Service	\$ 2,099	
Fines and Fees Collected	<u>1,586</u>	3,685

County Clerk:

Delinquent Taxes		3,384
------------------	--	-------

Commission on Taxes Collected		123,300
-------------------------------	--	---------

Other Fees on Tax Collection:

10% Sheriff's Penalty		8,293
-----------------------	--	-------

Fees Collected for Services:

Auto Inspections	\$ 7,685	
Serving Papers	4,690	
County Collections	1,380	
Accident Reports	327	
Carrying Concealed Deadly Weapon Permits	<u>4,155</u>	18,237

Other:

Refunds		8,074
---------	--	-------

Interest Earned		<u>3,785</u>
-----------------	--	--------------

Total Receipts		<u>\$ 185,994</u>
----------------	--	-------------------

The accompanying notes are an integral part of the financial statement.

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 2001  
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services:

Deputies' Salaries	\$ 41,607	
Salaries Paid By Fiscal Court - Reimbursement Due	<u>26,060</u>	\$ 67,667

Employer Benefits		366
-------------------	--	-----

Contracted Services:

Advertising	\$ 151	
Contract Labor	<u>8,864</u>	9,015

Materials and Supplies:

Office Material and Supplies	\$ 12,218	
Police and Uniform Supplies	<u>9,291</u>	21,509

Auto Expense:

Maintenance and Repairs	\$ 23,555	
Gasoline	<u>15,881</u>	39,436

Other Charges:

Bond	\$ 711	
Carrying Concealed Deadly Weapon Permits	2,670	
Dues	300	
County Collections	1,380	
Postage	3,745	
Reimbursements	471	
Miscellaneous	<u>3,479</u>	<u>12,756</u>

Total Disbursements		<u>\$ 150,749</u>
---------------------	--	-------------------

Net Receipts		\$ 35,245
--------------	--	-----------

Less: Statutory Maximum		<u>61,305</u>
-------------------------	--	---------------

Balance		\$ (26,060)
---------	--	-------------

Balance Due From Fiscal Court For Statutory Maximum		<u>26,060</u>
---	--	---------------

Excess Fees Due County		<u><u>\$ 0</u></u>
------------------------	--	--------------------

The accompanying notes are an integral part of the financial statement.

MARTIN COUNTY  
NOTES TO THE FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentality's, obligations and contracts for future delivery or purchase of obligations backed by the good faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months of the year, and 6.41 percent the last six months of the year.

MARTIN COUNTY  
 NOTES TO THE FINANCIAL STATEMENT  
 December 31, 2001  
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 20001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of November 15, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$243,434 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 15, 2001:

	Bank Balance
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,000,000
Insured with FDIC	100,000
Uncollateralized and uninsured	243,434
Total	\$ 1,343,434



MARTIN COUNTY  
NOTES TO THE FINANCIAL STATEMENT  
December 31, 2000  
(Continued)

Note 4: Community Oriented Policing Service Grant

The Sheriff did not receive prior written approval from the fiscal court to obtain the Community Oriented Policing Services (COPS) Grant. The Sheriff received funds from a COPS grant during calendar year 1995, 1996, and 1997. The Department of Justice has noted the Sheriff's department applied for the grant in violation of Grant Assurance #1, which states that the Sheriff's department is legally and officially authorized by the appropriate governing body to apply for the grant. The COPS Grant has been discontinued and the U. S. Department of Justice is asking that all grant receipts be returned. The Sheriff contends that the fiscal court should be responsible for repayment. For the 1995, 1996, and 1997 calendar years, grant receipts totaled 489,049. However, the Department of Justice has billed the Sheriff's office for partial repayment. Should the Sheriff's office be liable for repayment of the grant, partial repayment may be made from excess fees paid to the fiscal court for each year of grant receipts. This situation may affect excess fees reported for 1995, 1996, and 1997. However, repayment is limited to the extent of actual grant receipts for each year. If excess fees for any year do not cover repayment of the grant, the Sheriff personally or the fiscal court may be liable for the balance. At this time, the outcome of this situation is unknown. The fiscal court has retroactively approved the Sheriff's application for this grant. Grant receipts and disbursements for 1995, 1996, and 1997 were \$89,049 and excess fees for this period were \$53,137' the Sheriff could be personally liable for the difference of \$35,912 unless the fiscal court chose to pay. As of audit date, the Department of Justice gives no indication that this issue has been resolved.

THIS PAGE LEFT BLANK INTENTIONALLY

## COMMENTS AND RECOMMENDATIONS



MARTIN COUNTY  
DARRIEL YOUNG, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

Calendar Year 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Present An Annual Financial Settlement To The Fiscal Court, And Publish The Annual Financial Statement

The Sheriff did not present an annual financial settlement to the fiscal court and he did not publish an annual financial statement. KRS 134.310 requires a statement of receipts and disbursements for all funds of the Sheriff's office be submitted to the fiscal court at the time the sheriff makes his final settlement. KRS 424.220(6) requires the financial statement be published within sixty (60) days after the close of the calendar year. We recommend the Sheriff present a final settlement to the fiscal court and publish a financial statement within sixty (60) days after the close of the calendar year.

*County Sheriff's Response: We will comply*

2. The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of December 31, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond. However, as of November 15, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$243,434.12 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

We recommend the Sheriff obtain the appropriate collateral and a written security agreement.

*County Sheriff's Response:*

*OK.*

MARTIN COUNTY  
DARRIEL YOUNG, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
Calendar Year 2001  
(Continued)

3. The Sheriff Should Not Exceed His Budget

The Martin County Fiscal Court approved a budget for 2001 for the Sheriff's office of \$195,696 for Receipts and for Disbursements. During 2001, the Sheriff disbursed \$212,054. This is \$16,358 in disbursements over the budget. We recommend that the Sheriff stay within his budget.

*County Sheriff's Response:*

OK.

4. The Fiscal Court Should Set The Sheriff's Deputies Salary Limitations

KRS 64.350(3) states: "The fiscal court shall fix annually the maximum amount, including fringe benefits, which the Sheriff may expend for deputies and assistant salaries . . . ." For calendar year 2001, the fiscal court did not set the maximum amount the Sheriff could expend for deputies and assistant salaries. We recommend that the fiscal court comply with the provisions of KRS 64.350(3).

*County Sheriff's Response:*

OK.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

1. The Official Should Pay His Expenses In A Timely Manner

At December 19, 2001, the Sheriff owed the Martin County Fiscal Court \$118,553 for salary reimbursements. We recommend that the Sheriff pay his expenses in a timely manner.

*County Sheriff's Response:*

OK.

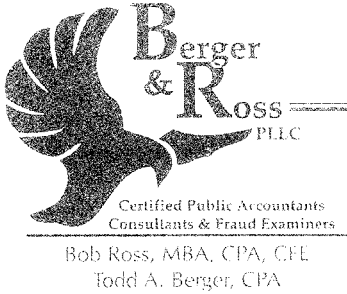
PRIOR YEAR COMMENTS:

The Sheriff Should Present An Annual Financial Statement To The Fiscal Court And Pay Excess Fees  
The Sheriff Should Publish The Annual Financial Statement  
The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement  
The Fiscal Court Should Set The Sheriff's Deputies Salary Limitations  
The Sheriff Should Pay His Expenses In A Timely Manner

REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







(502) 499-9088  
800 Envoy Circle  
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132  
Email: [irsrescue@msn.com](mailto:irsrescue@msn.com)  
Internet: [www.irsrescue.com](http://www.irsrescue.com)

Member:  
American Institute of CPAs  
Kentucky Institute of CPAs  
Association of Certified Fraud Examiners  
Association of Accountants and Tax Preparators  
Kentucky Association of CPAs  
National Association of Accountants  
National Association of Tax Preparators  
Government Auditing Standards Association

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Lon Lafferty County Judge/Executive  
Honorable Darriel, Martin County Sheriff  
Members of the Martin County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Martin County Sheriff for the year ended December 31, 2001 and have issued our report thereon dated October 1, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Martin County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Present An Annual Financial Settlement To The Fiscal Court, And Publish The Annual Financial Statement
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Have A Written Security Agreement
- The Sheriff Should Not Exceed His Budget
- The Fiscal Court Should Set The Sheriff's Deputies Salary Limitations

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Pay His Expenses In A Timely Manner

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However the reportable condition described above, we consider to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Berger & Ross, PLLC

Audit fieldwork completed -  
October 1, 2002

